

# **GOLCONDA RESOURCES LTD.**

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## **1994 ANNUAL REPORT TO SHAREHOLDERS**

(Status Report on Golconda's Exploration Activities)

On behalf of the Board of Directors, I am pleased to report on last year's activities of your Company.

In the last year important advances have been made in exploring the Company's properties and we have made a substantial change in our portfolio of exploration properties.

As funds for U.S. gold and diamond exploration are difficult to raise, some high cost and high risk properties were abandoned or, in some cases, our ownership interest was changed from a working to a royalty interest in order to avoid an unacceptable level of dilution of the outstanding shares of our Company. However, Golconda was fortunate to acquire new properties, which show a greater potential for large reserves and are easier and less expensive to hold and therefore, they have a better risk reward ratio.

In 1994, the greatest advance was made on the diamond exploration in the Western States. In Idaho, drilling has so far encountered lamproitic tuff in five different areas. G-10 garnets (which are direct diamond indicators) were found by Lakefield Research Ltd. in the samples from one of the drill holes. Our 1995 program will concentrate on finding diamonds in host lamproitic tuff.

In California, microprobe data on samples from our properties confirms the presence of minerals derived from great depths in the earth. This indicates that the diamonds, found on surface, nearby, should have a local source.

Your Company in 1994 acquired new diamond exploration properties in the Western U.S. in an area where diamonds have been reported in surface mining operations. One of these diamonds is in the diamond collection of the Smithsonian Institute. Two lamproitic pipes have so far been located and staked by Golconda, however the locations where the diamonds have been found indicate the existence of additional pipes, which will be the subject of your Company's 1995 exploration program.

Our greatest change has occurred in our portfolio of gold exploration properties. Golconda had an option to purchase the Moss Mine in Arizona for U.S. \$1.3 Million by August 6, 1995. The Company returned the property, but retains a small Net Smelter Royalty. Because of the dilution in shares Golconda would have had to incur, management elected to convert to the royalty interest and replace the project by the South Monitor Property in Nevada, which has greater potential for gold.

Additional work on the Star City Property in California left us with only the potential of a high grade - deep seated target. The cost for a deep drilling program in relation to the chance of success was determined to be too excessive. The project has been terminated and replaced with the acquisition of a copper-gold porphyry prospect in southern California.

Drill results on the Panorama Property in Nevada were disappointing and the claims were allowed to lapse.

The Nostradamus Property in California was not included in a newly created Wilderness Area. In 1995, exploration will resume at Nostradamus.



## **PROJECT SUMMARIES**

### **DIAMOND PROJECTS**

The Company has an extensive exploration program for diamonds in the Western United States. Two of its projects have been advanced considerably and one was terminated due to negative results. Several other areas in the Western United States are now in the early stages of exploration.

#### **THORN CREEK PROPERTY, IDAHO**

Golconda has a 100% interest in 150 claims covering 3,000 acres and leases an additional 13 sections (8,320 acres) in the McCall area of Idaho.

In 1913 diamonds were found and authenticated in this area. Initial stream sediment sampling led to the digging of three back hoe trenches in 1993. Samples from one of these trenches contained diamond indicator minerals (G-9 pyropes, chrome diopsides and diamond stability field chromites). A follow-up drill program in November 1993 encountered lamproitic tuff in a pipe covered by 45 ft. of basalt. Work carried out by Lakefield Research Ltd. on a 16 kg. composite sample from 120 ft. to 180 ft. in hole ME-1 found the same diamond indicator minerals. Additionally, Lakefield found two G-10 garnets, with a low calcium content (this type of garnets are direct diamond indicator minerals), and ilmenites, which show a lack of oxygen in the system. The lack of oxygen is important for the preservation of the diamonds on their way to the surface.

A second drill program started in November 1994. A new hole drilled next to hole ME-1 found that the lamproitic tuff continues to a depth of 495 ft. Purple pyrope garnets occurred in one of the samples from a depth of about 175 ft. Purple pyrope garnets also occurred in a stream sediment sample taken at a distance of about 2,500 ft. from the drill hole where part of the ejected tuff outcrops on surface.

The same drill program discovered four more lamproitic pipes. Diamond indicator minerals have been observed in several small samples from the drilling. All drill samples have been sent to Lakefield Research Ltd., where they will now be processed for diamonds and diamond indicator minerals.

A new drill program has commenced to test for the diamonds that should be associated with the G-10 garnets found in hole ME-1.

#### **SPANISH CREEK, CALIFORNIA**

In 1994, high pressure garnets, (indicating a source from great depth) were discovered in stream sediment samples from this property. We expect that newly gained knowledge from the much more advanced Thorn Creek Project will help us to carry out the exploration more efficiently and successfully at Spanish Creek.

#### **NEW EVALUATIONS**

In 1994, Golconda explored several different areas in the Western States for their diamond potential. The work is in an early stage. In one area, where diamonds have been found in the past, (one of which is in the Smithsonian Institute's diamond collection) two pipes have been found and staked by your Company. The location where the diamonds were discovered suggests the existence of other pipes, and their location will be the target of the 1995 exploration program in this area.



## **GOLD PROJECTS**

Although the gold price improved in 1994, it is still at a level which makes it difficult for a junior exploration company to raise working capital without a considerable dilution in its shares. Golconda therefore assessed its projects on a cost-benefit basis. In 1994, we replaced high cost or high risk projects with ones which are less expensive to explore and easier to develop and which have a greater potential for large, open-pittable, gold deposits.

### **MOSS MINE GOLD PROPERTY, ARIZONA**

Golconda had an option to purchase a 100% interest, subject to a 3.5% net smelter return in the Moss Mine Gold Property, Arizona. The purchase price of U.S. \$1.3 million was due on August 6, 1995. We were unable to farm-out or joint venture our property interest and as the gold price had not improved to a level, which would make it beneficial for the Company to raise the purchase price by the sale of shares, we returned the property to the lease holder in return for a 0.5% net smelter royalty from future production.

### **SOUTH MONITOR PROJECT, NEVADA**

This property which replaces the Moss Mine Gold Property consists of 108 claims covering 2,160 acres. Golconda has the option to earn a 60% interest in the property by spending U.S. \$750,000 in exploration over six years.

A large area of alteration shows widespread anomalous gold-silver mineralization (in a ratio of 1:10).

Historically, over 40 holes have previously been drilled on the property by major mining companies. The drilling outlined two areas which we believe will contain about 300,000 ounces of gold. The best hole in one of these areas intersected 0.108 oz. Au/ton over 120 ft. The large number of other targets gives this property the potential of one million ounces of gold. Further, the claims are not in an environmentally sensitive area.

### **MAG CLAIMS - SOUTHERN CALIFORNIA**

These claims replace the Star City Project, where previous work outlined the potential for 20 million tons of ore grade about 0.025 oz. Au/ton. The Star City Project was located in an environmentally sensitive area and, further, we required substantial additional reserves in order to make the project potentially economic. Our exploration budget did not allow us to prove or disprove the existence of a deep seated, higher grade deposit. The project was therefore terminated in favour of the Mag Claims, which are 100% owned by the Company.

Regional exploration in Southern California on the Mag Claims showed a strong negative magnetic anomaly on government maps, which covers the northern part of a sand and gravel covered valley. Outcropping rocks surrounding the valley, on three sides, show increasing and greater alteration towards the sand covered area. These rocks are intruded by porphyry dikes. Copper-gold, molybdenum, fluorite and barite mineralization occurs in the metamorphic rocks and in the porphyry dikes. The negative magnetic anomaly, and the type of the mineralization in the surrounding rocks, suggests the possibility of a copper-gold porphyry deposit under the sand cover in the valley. Golconda has applied for a drill permit with the Bureau of Land Management, which we expect to receive shortly.

Porphyry systems can contain multi-million ounce gold deposits. Again, the claims are not in an environmentally sensitive area.



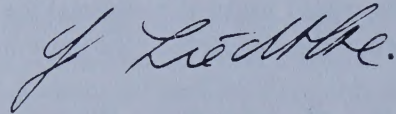
**NOSTRADAMUS PROPERTY, CALIFORNIA**

In November, 1994, the boundaries of a new Wilderness Area were finally established, from which our Nostradamus property was excluded.

Golconda has started a surface sampling program to better define two significant gold mineralized areas which measure 600 ft. by 1,500 ft. and 750 ft. by 1,800 ft.

In 1995, we look forward to aggressive gold and diamond exploration programs for our Company with the possibility of significant new discoveries of both minerals.

**ON BEHALF OF THE BOARD**

A handwritten signature in cursive script, appearing to read "J. Liedtke".

**GUENTER J. LIEDTKE**  
**President**